

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name LUCE COUNTY ROAD COMMISSION	County LUCE
Audit Date DECEMBER 31, 2004	Opinion Date MARCH 22, 2005	Date Accountant Report Submitted to State: MAY 6, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) ANDERSON, JACKMAN & COMPANY, PLC			
Street Address 16978 S. RILEY AVE	City KINCHELOE	State MI	ZIP 49788
Accountant Signature Anderson Jackman & Co Pds			

LUCE COUNTY ROAD COMMISSION

BASIC FINANCIAL STATEMENTS

December 31, 2004

LUCE COUNTY

BOARD OF COUNTY ROAD COMMISSIONERS

Robert Ottenhoff
Chairman

Peter Anderson
Vice - Chairman

Telford Burton
Member

Stan Ronquist
Engineer - Manager

Gary Moulton
Office Manager

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Luce County Road Commission
Newberry, Michigan 49868

We have audited the accompanying financial statements of the governmental activities and the major fund of the Luce County Road Commission (a component unit of the County of Luce, Michigan) as of and for the year ended December 31, 2004, as listed in the Table of Contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, provisions of Public Act 71 of 1919, section 21.41 of the Michigan Compiled Laws, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Luce County Road Commission as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Luce County Road Commission implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments* as of January 1, 2004. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2005, on our consideration of the Luce County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management’s Discussion and Analysis on page 3 and budgetary comparisons as listed in the table of contents are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Luce County Road Commission’s basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

March 22, 2005

Management's Discussion and Analysis

Using This Annual Report

The Luce County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

Reporting the Road Commission as a Whole

The statement of net assets and the statement of activities report information about the road commission as a whole and about its activities in a way that helps answer the question of whether the road commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the road commission's major fund begins on page 10. The fund financial statements begin on page 25 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The road commission's net assets increased approximately .78% for the year ended December 31, 2004. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, increased \$46,608. The primary reason for this was an increase in federal support for road projects, and employee reductions. The investment in capital assets category decreased \$39,070. A reduction in capital assets, township contributions, and increased fringe benefits affected net assets as well.

It is important for the reader to realize that the increase in net assets is largely a result of the road commission electing to report infrastructure assets.

Net assets as of the year ended December 31, 2004 follows:

	<u>Governmental Activities</u>
Current and Other Assets	\$ 1,655,426
Capital Assets	<u>5,032,871</u>
Total Assets	<u>6,688,297</u>
Current Liabilities	454,177
Other Liabilities	<u>225,104</u>
Total Liabilities	<u>679,281</u>
Net Assets	
Invested in Capital Assets	5,032,871
Restricted	<u>976,145</u>
Total Net Assets	<u><u>\$ 6,009,016</u></u>

A summary of changes in net assets for the year ended December 31, 2004 follows:

	<u>Governmental Activities</u>
Program Revenues	
Charges for Services	\$ 689,565
Operating Grants and Contributions	2,220,894
General Revenues	
Interest Income	14,699
Gain on Disposal of Equipment	<u>31,510</u>
Total Revenues	<u>2,956,668</u>
Program Expenses	
Primary Roads Maintenance	1,204,090
Local Roads Maintenance	744,252
State Trunkline Maintenance and Nonmaintenance	594,466
Equipment Expense	64,967
Administrative	304,636
Compensated Absences	<u>(2,351)</u>
Total Expenses	<u>2,910,060</u>
Increase in Net Assets	<u>\$ 46,608</u>

The Road Commission's Fund

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2004, the fund balance of the general operations fund increased \$82,326 as compared to an increase of \$151,214 in the fund balance for the year ended December 31, 2003 (last year). Total revenues were \$2,956,668, an increase of \$372,217 as compared to last year. This change in revenues resulted primarily from an increase in federal surface transportation funds and state grants due to federal projects.

Total expenditures were \$2,874,342, an increase of \$441,105 as compared to last year. This change in expenditures is primarily due to capital outlays and fringe benefit costs. Federal projects also increased expenditures.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final revenue budget for 2004 was higher than the original budget by \$416,571. There was also an increase in State Maintenance Revenues because of an increase due to snow maintenance and increases in other state maintenance programs. There was an increase in local and primary expenditures due to more maintenance. The actual expenditures recognized during the current year were more than the final amended budget by \$263,846. There were no unfavorable variances in any expenditures line-items.

Capital Asset and Debt Administration***Capital Assets***

As of December 31, 2004, the road commission had \$5,032,871 invested in capital assets as follows:

Capital Assets Not Being Depreciated	
Land and Improvements	\$ <u>156,891</u>
Other Capital Assets	
Buildings and Improvements	978,804
Road Equipment	4,269,686
Other Equipment	297,918
Infrastructure	<u>4,183,872</u>
Total Capital Assets at Historic Cost	<u>9,730,280</u>
 Total Accumulated Depreciation	 <u>(4,854,300)</u>
 Total Net Capital Assets	 <u>\$ 5,032,871</u>

Current year's major additions included the following:

Various Resurfacing Projects	\$ <u>350,803</u>
Trucks/Equipment	\$ <u>140,493</u>

Debt

The road commission currently has long-term debt in the amount of \$225,104 which represents compensated absences payable.

Economic Factors and Next Year's Budget

The board of county road commissioner's considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The road commission derives approximately 62% of its revenues from the fuel tax collected. The economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed. The Commission is considering reducing labor costs through attrition and adjustments to health care insurance to offset revenue declines.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and /or rebuild every road in Luce County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of the County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Luce County Road Commission administrative offices at 423 West McMillan, Newberry, Michigan.

Basic Financial Statements

Luce County Road Commission

Statement of Net Assets December 31, 2004

ASSETS

Cash and Equivalents	\$ 955,350
Accounts Receivable:	
Michigan Transportation Fund	262,326
State – Other	1,473
Sundry Accounts	3,359
Trunkline Maintenance	90,404
Prepaid Expenses	51,910
Inventories:	
Road Materials	164,730
Equipment, Parts and Materials	125,874
Capital Assets (Net of Accumulated Depreciation)	<u>5,032,871</u>
Total Assets	<u>\$ 6,688,297</u>

LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 19,309
Accrued Liabilities	57,628
Due to State	3,244
Advances from State	228,934
Deferred Revenue	145,062
Noncurrent Liabilities:	
Vested Employee Benefits	<u>225,104</u>
Total Liabilities	<u>679,281</u>

NET ASSETS

Investment in Capital Fixed Assets (Net of Related Debt)	5,032,871
Restricted for County Road	<u>976,145</u>
Total Net Assets	<u>\$ 6,009,016</u>

Luce County Road Commission

Statement of Activities For the Year Ended December 31, 2004

Program Expenses:	
Primary Road Maintenance	\$ 1,204,090
Local Road Maintenance	744,252
State Trunkline Maintenance	594,466
Net Equipment Expense	64,967
Net Administrative Expense	304,636
Compensated Absences	<u>(2,351)</u>
Total Program Expenses	<u>2,910,060</u>
Program Revenues:	
License and Permits	3,345
Federal Grants	263,325
State Grants	1,957,569
Contributions from Local Units	-
Charges for Services	686,220
Interest Income	<u>14,699</u>
Total Program Revenues	<u>2,925,158</u>
Net Program Revenues	<u>15,098</u>
General Revenue:	
Gain on Equipment Disposal	<u>31,510</u>
Total General Revenues	<u>31,510</u>
Change in Net Assets	46,608
Net Assets	
Beginning of Year	<u>5,962,408</u>
End of Year	<u>\$ 6,009,016</u>

Luce County Road Commission

Balance Sheet December 31, 2004

Governmental
Fund Type
General
Operating Fund

ASSETS

Cash and Equivalents	\$ 955,350
Accounts Receivable:	
Michigan Transportation Fund	262,326
State Trunkline Maintenance	90,404
State – Other	1,473
Sundry Accounts	3,359
Prepaid Expenses	51,910
Inventories:	
Road Materials	164,730
Equipment, Parts, and Materials	<u>125,874</u>
Total Assets	<u>\$ 1,655,426</u>

LIABILITIES AND FUND EQUITY

Liabilities:	
Accounts Payable	\$ 19,309
Accrued Liabilities	57,628
Due to State	3,244
Advances from State	228,934
Deferred Revenue	<u>145,062</u>
Total Liabilities	<u>454,177</u>
Fund Equities:	
Fund Balance	
Unreserved and Undesignated	<u>1,201,249</u>
Total Fund Equities	<u>1,201,249</u>
Total Liabilities and Fund Equities	<u>\$ 1,655,426</u>

Luce County Road Commission

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets For the Year Ended December 31, 2004

Total Governmental Fund Balance	\$ 1,201,249
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	5,032,871
Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	<u>(225,104)</u>
Net Assets of Governmental Activities	<u>\$ 6,009,016</u>

**Statement of Revenues, Expenditures and
Changes in Fund Balance
For the Year Ended December 31, 2004**

	<u>General Operating Fund</u>
Revenues	
License and Permits	\$ 3,345
Federal Sources	263,325
State Sources	1,957,569
Contributions from Local Units	-
Charges for Services	686,220
Interest and Rents	14,699
Gain on Disposal	<u>31,510</u>
Total Revenues	<u>2,956,668</u>
Expenditures	
Public Works	3,071,712
Capital Outlay	<u>(197,370)</u>
Total Expenditures	<u>2,874,342</u>
Excess of Revenues Over (Under) Expenditures	82,326
Fund Balance – January 1, 2004	<u>1,118,923</u>
Fund Balance – December 31, 2004	<u>\$ 1,201,249</u>

Luce County Road Commission

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2004

Net Change in Fund Balance – Total Governmental Funds	\$	82,326
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Amounts reported for governmental activities in the statements are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	(38,069)
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Expenses which do not require the use of current financial resources and therefore are not reported in governmental funds.	<u>2,351</u>
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Change in Net Assets of Governmental Activities	\$	<u>46,608</u>
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Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Luce County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Luce County Road Commission.

Effective January 1, 2004, the Road Commission implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Road Commission’s overall financial position and results of operations has been included with the financial statements.
- Financial statements prepared use full accrual accounting for all of the Road Commission’s activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

A. Reporting Entity

The Luce County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member Board of County Road Commissioners appointed by the Luce County Board of County Commissioners. The Road Commission may not issue debt without the County’s approval and property tax levies are subject to County Board of Commissioners’ approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, “The Financial Reporting Entity,” for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Luce County Road Commission, a discretely presented component unit of Luce County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for administration of the Road Commission Operating Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Luce County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

D. Assets, Liabilities, and Net Assets or EquityCash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of six months or less when acquired. Deposits are recorded at cost.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Luce County Road Commission as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Luce County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 20 years
Infrastructure – Bridges	12 to 30 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITYBudgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Clerk and Manager prepare a budget in accordance with the Act which is adopted by the Board at a public hearing each December. All budgets lapse at fiscal year end.

NOTE 3 - CASH AND EQUIVALENTS

The cash and investments are classified by GASB Statement No. 3 in the following categories:

Imprest Cash	\$	100
Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)		205,000
Investments		<u>750,250</u>
Total Cash and Equivalents	\$	<u>955,350</u>

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the state of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

The risk disclosures for the Road Commission deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

	<u>Carrying Amount</u>	<u>Financial Institution Balance</u>
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ <u>205,000</u>	\$ <u>284,918</u>

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations.

The risk disclosures for the Road Commission deposits (in regards to the savings accounts), as required by GASB Statement No. 3, are not available in that the Road Commission's cash deposits are part of the County's bank accounts. The Road Commission would receive its proportional share of insurance coverage. However, given the amount of the Road Commission's funds relative to the common bank account total, we estimate that \$200,000 of the Road Commission's fund to be substantially insured.

NOTE 3 - CASH AND EQUIVALENTS (Continued)

Risk disclosures for the Road Commission's investments are as follows:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Nonrisk-Categorized Money Market Funds	\$ 750,250	\$ 750,250
Total Investments	\$ 750,250	\$ 750,250

The Road Commission has investments purchased through a pooled investments account at several financial institutions. The nature of the pooled investment does not allow for risk-categorization in accordance with GASB Statement No. 3.

NOTE 4 - DEFERRED COMPENSATION PLAN

The Luce County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Luce County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Luce County Road Commission's financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Luce County Road Commission for the current year was as follows:

	<u>Beginning Balances 01/01/04</u>	<u>Additions</u>	<u>Adjustments/ Deductions</u>	<u>Ending Balances 12/31/04</u>
Capital Assets Not Being Depreciated				
Land	\$ 39,182	\$ -	\$ -	\$ 39,182
Land Improvements	117,709	-	-	117,709
Subtotal	156,891	-	-	156,891

NOTE 5 - CAPITAL ASSETS (Continued)

	Beginning Balances 01/01/04	Additions	Adjustments/ Deductions	Ending Balances 12/31/04
Capital Assets Being Depreciated				
Land Improvements	38,460	-	-	38,460
Buildings	940,344	-	-	940,344
Road Equipment	4,232,690	139,444	102,448	4,269,686
Shop Equipment	233,282	1,049	-	234,331
Office Equipment	44,197	-	-	44,197
Engineers' Equipment	19,390	-	-	19,390
Infrastructure - Bridge	756,552	-	-	756,552
Infrastructure – Roads	<u>3,076,517</u>	<u>350,803</u>	<u>-</u>	<u>3,427,320</u>
Subtotal	<u>9,341,432</u>	<u>491,296</u>	<u>102,448</u>	<u>9,730,280</u>
Less Accumulated Depreciation				
Land Improvements	12,015	1,282	-	13,297
Buildings	313,615	30,181	-	343,796
Road Equipment	3,581,722	289,046	102,448	3,768,320
Shop Equipment	160,850	13,416	-	174,266
Office Equipment	33,882	3,709	-	37,591
Engineers' Equipment	18,998	230	-	19,228
Infrastructure - Bridges	20,920	15,514	-	36,434
Infrastructure – Roads	<u>285,380</u>	<u>175,988</u>	<u>-</u>	<u>461,368</u>
Subtotal	<u>4,427,382</u>	<u>529,366</u>	<u>102,448</u>	<u>4,854,300</u>
Net Capital Assets Being Depreciated	<u>4,914,050</u>	<u>(38,070)</u>	<u>-</u>	<u>4,875,980</u>
Total Net Capital Assets	<u>\$ 5,070,941</u>	<u>\$ (38,070)</u>	<u>\$ -</u>	<u>\$ 5,032,871</u>

Depreciation expense as changed to the following programs:

Primary Road	\$ 128,798
Local Road	62,704
Equipment	289,046
Administrative	45,556
Other	<u>3,262</u>
Total Depreciation Expense	<u>\$ 529,366</u>

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Luce County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Local Government Unit. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: 447 North Canal Street, Lansing, Michigan.

Funding Policy – The obligation to contribute and maintain the system for these employees was established by negotiation with the Luce County Road Commission's competitive bargaining units and requires a contribution based on gross wages by County Road Commission only.

Annual Pension Costs – For year ended 2004, the Luce County Road Commission's pension cost of \$144,596 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as December 31, 2002, using the age normal cost method. Significant actuarial assumptions used include: (i) a 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31 follows:

	2001	2002	2003
Actuarial Value of Assets	\$ 3,703,324	\$ 3,710,211	\$ 3,896,539
Actuarial Accrued Liability	5,306,614	5,563,174	6,032,626
Unfunded AAL	1,603,290	1,852,963	2,136,087
Funded Ratio	70%	67%	65%
Covered Payroll	855,982	890,280	868,162
UAAL as a Percentage of Covered Payroll	187%	208%	246%

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2004, the federal aid received and expended by the Road Commission was \$263,325 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Local force account projects are projects where the road commissions perform the work and would be subject to single audit requirements if they expended \$500,000 or more.

NOTE 8 - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE 9 - LONG-TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

	Balances 01/01/04	Additions (Reductions)	Balances 12/31/04
Vested Employee Benefits Payable			
Vacation Benefits	\$ 78,309	\$ (5,642)	\$ 72,667
Sick Leave Benefits	<u>149,146</u>	<u>3,291</u>	<u>152,437</u>
Total	<u>\$ 227,455</u>	<u>\$ (2,351)</u>	<u>\$ 225,104</u>

Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. New employees are eligible for vacation benefits after 1 year of service, and vacation benefits accrue on a biweekly pay period basis thereafter. Employees may accumulate up to a maximum of 2 years vacation benefits.

Sick Leave Benefits

Road Commission employment policies provide for sick leave benefits to be earned at the rate of 1 day per month, with an unlimited accumulation. Employees hired prior to July 1, 1981, upon voluntary termination with ten working days notice, retirement, or death of an employee in the service of the Road Commission, shall be paid for 100% of any accumulated unused sick leave up to a maximum of 160 days.

Employees hired after July 1, 1981 will receive payment for ½ of their unused accumulated sick leave up to a maximum of 60 days, upon retirement only.

NOTE 10 - CHANGE IN ACCOUNTING PRINCIPLE

Effective January 1, 2004, the Road Commission implemented several new accounting standards issued by GASB:

Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues, which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis – for State and Local Governments, as amended by Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments Omnibus, which established new financial reporting standards for state and local governments. This statement requires significant change in the financial reporting model used by local governments, eliminating account groups and utilizing full accrual basis of accounting and the economic resources measurement focus. Another significant change is the Management's Discussion and Analysis Section, which provides an overall analysis of the financial position and results of operations and conditions that could have significant effect on the financial position or results of operations.

Statement No. 38, Certain Financial Statement Note Disclosures, which requires certain note disclosures when implementing GASB Statement 34.

NOTE 11 - POST EMPLOYMENT BENEFITS

The Luce County Road Commission provides post-employment health care and cancer benefits to all retired employees and/or their spouse and life insurance benefits for the retiree only. The benefits are provided in accordance with Article 34 (a), (b) and (c) of the union agreement, which includes the provision that upon a retiree and/or spouse's eligibility for Medicare, the Road Commission agrees to pay for the supplemental health insurance coverage for both.

For employees hired prior to September 1, 1998, the Road Commission agrees to pay the premium for each employee and spouse at time of retirement. Upon eligibility for Medicare, the Employer agrees to pay for Blue Cross/Blue Shield supplemental coverage for both the retiree and his spouse.

For all employees hired after September 1, 1998, the Road Commission agrees to pay 4% of the premium for each employee at time of retirement for each year of service said employee has spent with the Road Commission. Employees may elect to have coverage provided to spouses at the employee's expense.

In order for an employee to be eligible to health care benefits at retirement, the employee must retire from active service with the Road Commission at age 60 with 10 years of service or at age 55 with 25 years of service.

NOTE 11 - POST EMPLOYMENT BENEFITS (Continued)

During 2004 retirees and/or spouses were eligible for the post-employment health care benefits at a cost of \$231,914; 39 retirees and/or spouses were eligible for cancer insurance benefits at a cost of \$5,069 and 18 retirees were eligible for life insurance benefits at a cost of \$2,673. The Road Commission's policy is to finance these benefits on a pay-as-you-go basis.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at December 31, 2004.

Risk Management - The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

Required Supplementary Information

Luce County Road Commission**Required Supplementary Information
Budgetary Comparison Schedule
Statement of Revenues
For the Year Ended December 31, 2004**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Licenses and Permits				
Permits	\$ 3,600	\$ 3,345	\$ 3,345	\$ -
Federal Sources				
Surface Transportation Program	250,000	263,326	263,325	(1)
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Allocation	1,600,000	1,701,323	1,701,323	-
Snow Removal	164,000	170,013	170,012	(1)
Economic Development Fund				
Forest Road	62,500	76,234	76,234	-
Contributions from Local Units				
Townships	-	-	-	-
Charges for Services				
State Trunkline	433,000	676,236	594,466	(81,770)
Salvage Sales	-	609	609	-
Other	-	-	91,145	91,145
Interest and Rents	12,000	14,699	14,699	-
Other Revenue and Financing Resources				
Other	-	9,377	-	(9,377)
Gain on Equipment Disposal	<u>5,000</u>	<u>31,510</u>	<u>31,510</u>	<u>-</u>
Total Revenue	<u>\$ 2,540,100</u>	<u>\$ 2,956,672</u>	<u>\$ 2,956,668</u>	<u>\$ (4)</u>

Luce County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Expenditures – Budget and Actual For the Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Heavy Maintenance	\$ 312,500	\$ 344,356	345,628	(1,272)
Maintenance	982,000	1,076,566	1,075,292	1,274
Local Road				
Heavy Maintenance	-	6,448	6,447	1
Maintenance	653,000	680,277	680,276	1
State Trunkline				
Maintenance	433,000	594,467	594,466	1
Equipment Expense – Net	170,000	64,967	64,967	-
Administrative Expense – Net	260,000	304,636	304,636	-
Capital Outlay – Net	<u>(200,000)</u>	<u>(197,371)</u>	<u>(197,370)</u>	<u>(1)</u>
Total Expenditures	2,610,500	2,874,346	<u>\$ 2,874,342</u>	<u>\$ 4</u>
Fund Balance – January 1, 2004	<u>1,118,923</u>	<u>1,118,923</u>		
Total Budget	<u>\$ 3,729,423</u>	<u>\$ 3,993,269</u>		

Luce County Road Commission

Analysis of Changes in Fund Balances For the Year Ended December 31, 2004

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Total Revenues	\$ 1,569,429	\$ 761,972	\$ 625,267	\$ 2,956,668
Total Expenditures	<u>1,672,980</u>	<u>753,806</u>	<u>447,556</u>	<u>2,874,342</u>
Excess of Revenues Over (Under) Expenditures	(103,551)	8,166	177,711	82,326
Fund Balance – January 1, 2004	<u>491,992</u>	<u>20,090</u>	<u>606,841</u>	<u>1,118,923</u>
Fund Balance – December 31, 2004	<u>\$ 388,441</u>	<u>\$ 28,256</u>	<u>\$ 784,552</u>	<u>\$ 1,201,249</u>

Luce County Road Commission

Analysis of Revenues For the Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	\$ -	\$ 3,345	\$ -	\$ 3,345
Federal Sources				
Surface Transportation Program	263,325	-	-	263,325
State Sources				
Michigan Transportation Fund				
Engineering	7,200	2,800	-	10,000
Snow Removal	-	170,012	-	170,012
Primary Road	1,217,031	-	-	1,217,031
Local Road	-	484,292	-	484,292
Economic Development Fund				
Forest Road	71,058	5,176	-	76,234
Contributions from Local Units				
Township	-	-	-	-
Charges for Services				
State Trunkline				
Maintenance	-	-	535,625	535,625
Nonmaintenance	-	-	58,841	58,841
Salvage Sales	-	-	609	609
Other	-	91,145	-	91,145
Other Revenue and Financing Resources				
Interest and Rents	6,468	294	7,937	14,699
Gain on Disposals	4,347	4,908	22,255	31,510
Total Revenue	<u>\$ 1,569,429</u>	<u>\$ 761,972</u>	<u>\$ 625,267</u>	<u>\$ 2,956,668</u>

Luce County Road Commission

Analysis of Expenditures For the Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Heavy Maintenance	\$ 345,628	\$ -	\$ -	\$ 345,628
Maintenance	1,075,292	-	-	1,075,292
Local Road				
Heavy Maintenance	-	6,447	-	6,447
Maintenance	-	680,276	-	680,276
State Trunkline Maintenance	-	-	535,625	535,625
State Trunkline Nonmaintenance	-	-	58,841	58,841
Equipment Expense – Net	28,670	20,445	15,852	64,967
Administrative Expense – Net	205,378	99,258	-	304,636
Capital Outlay – Net	<u>18,012</u>	<u>(52,620)</u>	<u>(162,762)</u>	<u>(197,370)</u>
Total Expenditures	<u>\$ 1,672,980</u>	<u>\$ 753,806</u>	<u>\$ 447,556</u>	<u>\$ 2,874,342</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

Board of County Road Commissioners
Luce County Road Commission
Newberry, Michigan 49868

We have audited the financial statements of the governmental activities and major fund of the Luce County Road Commission as of and for the year ended December 31, 2004, which collectively comprise the Luce County Road Commission's basic financial statements and have issued our report thereon dated March 22, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Luce County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated March 22, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Luce County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

March 22, 2005

Luce County Road Commission

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2004

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Project</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF TRANSPORTATION:				
Pass-Through Programs From:				
Michigan Department of Transportation				
County Road 438 from County Road 413	20.205	STP 0448(004)	73371	\$ <u>263,325</u>
Subtotal MDOT Administered				<u>263,325</u>
Total U.S. Department of Transportation				<u>263,325</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u><u>\$ 263,325</u></u>



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MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Members of the Board of County Road Commissioners
Luce County Road Commission
423 West McMillan Avenue
Newberry, Michigan 49868

We have audited the financial statements of the Luce County Road Commission for the year ended December 31, 2004, and have issued our report thereon dated March 22, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Luce County Road Commission. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Luce County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Luce County Road Commission are described in Note 1 to the financial statements. We noted no transactions entered into by the Luce County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the component unit financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the component unit financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Trunkline maintenance contract liabilities, estimated useful lives of property, plant and equipment, and insurance reserves are some items which are estimates.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the component unit financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Luce County Road Commission that could potentially cause future financial statements to be materially misstated.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the component unit financial statements or the independent auditors' report. We are pleased to report that no such disagreement arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Road's component unit financial statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Luce County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

Infrastructure Reporting

The commission should adopt a capitalization threshold for recording infrastructure amounts of \$5,000 or \$10,000 in accordance with GASB requirements. Additionally, the Commission should consider amending timecard categories to assist in the accumulation of infrastructure costs and classification.

Inventory Status Report

The inventory status report does not reflect current quantity and per unit costs as indicated in manual support records. The software is designed to automatically calculate quantities and per unit cost rates to assure proper allocations of costs without manual adjustments.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of the Luce County Road Commission, the cognizant audit agencies and other federal and state agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

March 22, 2005